TRUST IN ECONOMIC RELATIONS AND BUSINESS

Dr. Sławomir Czarniewski
University of Finance and Management in Bialystok
Ul. Ciepła 40
15-472 Białystok, **POLAND**

ABSTRACT

Trust is a very important factor in interpersonal relations, in the functioning of the public sphere and in ensuring the efficiency of the economic system. Trust is the result of human interaction. In business, contracts usually come to conclusion only when one party gains the sympathy and trust of the other. Business contacts are contacts between people and trust is the most important reason why people prefer one company over another. In economic relations, trust is particularly important, especially in the current crisis, hailed as "the crisis of confidence" by many economists. Trust frequently liberates and mobilizes human subjectivity, causes openness, creativity and innovation, and reduces transaction costs. The aim of this study is to analyze the relationship between trust, which is a very important aspect of business, and transaction costs.

Keywords: Trust, business, transaction costs, economic results, management.

INTRODUCTION

Trust should be understood as the belief in the sincerity of human intentions. In philosophy, trust is seen as constitutive of the value of a person, in relation to themselves and their relationship with the world. Some combine reliability with trust - man strives to be reliable and seeks to surround himself with reliable people.

Trust is a very important quality of individuals, groups or whole societies; it is a specific form of social capital. Trust frequently lowers transaction costs, which can generally be defined as the cost of operation in an economic system. There is no doubt that transaction costs are ubiquitous in every economic and business sphere. Therefore, trust reduces the cost of economic relations. The greater the reduction in cost, the more efficient the system.

RESEARCH METHODOLOGY

Companies are using specific trust models on a more frequent basis and have felt the benefits of doing so. The subject of this article is the analysis of issues related to the shaping of the trust model in the context of changes in the market. Analysis was made about the current direction of development of customer equity management and its practical adaptation in constructing model of customer trust. In the framework of this study, the mechanisms for the creation of trust are also shown.

In this work the following methods were used: review of literature and source materials in electronic form, observation and analysis of case studies. In this study, the method of descriptive analysis, based on extensive literature, was used. The work also presents the results of research and analysis conducted by well-known scientists around the world in the field of management.

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Trust in the sphere of business

In psychology, the most commonly encountered meaning of the word trust is the belief in the truthfulness of a person (Reber & Reber, 2005, p. 919). S. P. Robbins describes trust as a positive expectation that no one – in word, deed or decision – will work against us (Robbins, 2000, p. 176).

Some researchers characterize trust as a one-directional relationship between two individuals, characterized by risk, where one person entrusts another (Grudzewski, Hejduk, Sankowska, & Wańtuchowicz, 2007, p. 36). According to sociologist P. Sztompka, trust is a gamble taken on the uncertain future connected with the actions of other people; it is a kind of human bridge over the abyss of uncertainty; and is the most valuable variation of social capital (Sztompka, 2007, pp. 69-70).

Trust is a necessary risk that entails a sharp increase in faith, where one puts trust in other people despite the lack of complete information (Aldridge, 2006, p. 115). People who trust others are more cooperative and less afraid of failure, are more creative and have a positive attitude to work. This is why it is extremely important to make every effort for trust to became the norm in the economic sphere.

The market does not function for free - with no costs. Enterprises are tools for reducing operational costs, and are established where an internal coordination system is cheaper than the market mechanism. To perform a commercial transaction, it is necessary to find a partner for this exchange; to inform others that one wants to conduct a transaction in particular conditions; to conduct negotiations; to write a contract; to undertake steps to ensure that the terms of the contract are fulfilled; etc. These operations are often very expensive. In some situations, an appropriate level of trust can significantly reduce these costs.

The mechanism of transaction costs

A definition of transaction costs by W. Stankiewicz can be considered as accurate, specifying that transaction costs are one part of the total cost of operating within the socio-economic system, which includes expenditures incurred during the conclusion and the implementation of all types of transactions (Stankiewicz, 2007, p. 170).

A. Alchian and J. Woodward indicate the existence of two approaches in the analysis of transaction costs. The first emphasizes management, leadership, negotiation and monitoring of production teams in companies, and the second focuses on ensuring the quality and efficiency of contract agreements (Alchian & Woodword, 1988, p. 66).

O.E. Williamson divides transaction costs into those before the conclusion of the contract (ex ante) and those after the conclusion of the contract, connected with its implementation (ex post) (Williamson, 1994, p. 114-116). This economist is considered to be the most well-known (experienced) theorist and practitioner on issues concerned with transaction costs. His theories are considered milestones in the field of economics. The culmination of his research, contributing to the development of the concept of transaction costs, lead to O.E. Williamson being awarded the Nobel Prize in Economics in 2009.

In addition to transaction costs, the costs of coordinating the successive phases of the exchange process, such as searching for information, negotiating and decision making, are also treated as expenses of business transactions. Some researchers believe that transaction costs are the difference between the price obtained by the seller and the price paid by the buyer (Klaes, 2000, pp. 192-193).

The popularization of the argument that, under certain conditions, trust improves economic efficiency, has caused economists to look closer at the problem of trust. Trust can often reduce transaction costs by enforcing honest behavior. Practically every commercial transaction has an element of trust, and its lack usually has negative economic effects.

Trust and transaction costs

Nowadays, scientists are in agreement about the fact that trust cannot be ignored in economic calculations. Its significance can also be seen by the dynamic development of behavioral economics. Trust has taken its rightful place in science (Seabright, 2004, pp. 64-66).

In the model of a perfect market, transactions take place immediately and with no cost. Transaction costs equal zero if the information is complete and no asymmetry exists. D. C. North believes that information is key in transaction costs (North, 1990, pp. 220-222). In real economic life, however, there is asymmetry of information, which is exploited for clearly opportunistic reasons by one of the parties in the transaction. Limited rationality and opportunism are the central economic assumptions in transaction costs.

Trust is the factor that allows both parties involved in the transaction to protect themselves against temptations of opportunism. Trust acts as a substitute for costly formal control. Lack of trust often results in the engagement of a complex legal apparatus that increases transaction costs.

Many researchers believe that trust plays an important role in the deterrence of opportunistic behavior, allowing participants of transactions to use less sophisticated ways to secure their interests (Chiles & McMakin, 1996, pp. 88-89). More complex safeguards are not cheap and are usually connected with higher incurred costs of negotiating, writing and monitoring contracts.

Trust is needed in order to organize transactions and to have an economic exchange at normal pace. Lack of trust in society results in the imposition of a specific tax on all forms of economic activity. Such a tax does not have to be paid by societies with a high level of public trust. Trust plays an important role in the relationship between suppliers and companies. It reduces the level of dissatisfaction resulting from a temporary drop in the level of performance and also reduces the costs of cooperation (Sungmin, Soonhong & Nobuhide, 2008, pp. 48-58).

All companies incur transaction costs and the amount often dictates the company's competitive position. These costs are necessary to ensure the liquidity of turnover, the quality of collected information and the relevance of the decisions made. In a bid to reduce transaction costs, companies create agencies or other specialized departments which are meant to facilitate the operation of the company, especially in new and poorly recognized markets (Czarniewski, 2015, pp. 1-8).

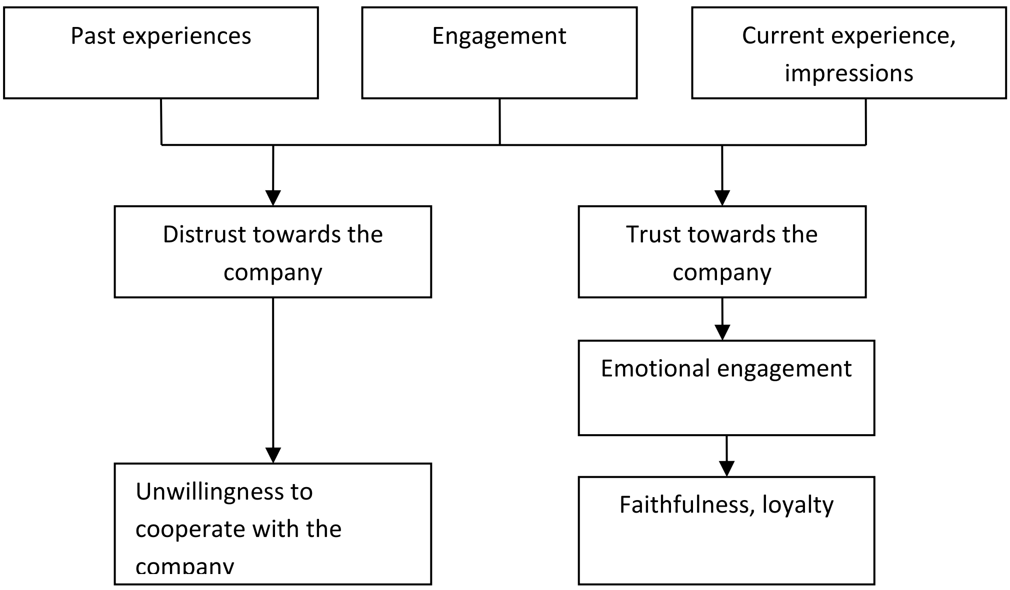
P. Bromiley and J. Harris argue that there is a difference between the counting of transaction costs when one party believes that the other seeks only their own benefit, even resorting to deception, and when one party has trust in the other, with their behavior not determined by deception (Bromiley & Harris, 2006, p. 124-125).

The model of customer trust

Traditional market communication tools, such as sales activation, can influence consumer confidence only to a certain level. At some level, the consumer himself must personally decide whether to cooperate with a specific organization. Only when consumers have a positive impression of the company, on the basis of their own personal experiences, may complete trust occur. Empiricism is not something that can be easily purchased, but rather something that evolves slowly, based on an open, mutual business relationship. Personal experience is important because it is the generator of attachment, which directly affects the body, causing a considerable sense of security and confidence. In this sense, we can say that overall satisfaction, and satisfaction with the relationship, is the foundation of trust, because on the one hand it proves that the bestowal of trust in the company was a good decision, on the other hand confirms the expectation that the company cares about the overall success of their clients and protects their interests (Czarniewski, 2014, pp. 15-25).

Past experience in conjunction with existing consumer impressions form the foundation for the development or lack of development of trust (Figure 1.). The role of the organization is therefore to take the necessary measures to maintain an adequate level of social trust and positive perception of the business by customers. There is no doubt that the development of the company is heavily contingent upon possession of a group of loyal customers/recipients.

Figure 1. A theoretical model of customer trust



Source: Own research

An important issue is the appropriate level of customer confidence in the company, in the service provider. Lack of confidence is the main reason that customers/Internet users refrain from making purchases online using web services. According to G. L. Urban, confidence allows customers to make Internet transactions, as well as engage in activities on social media websites (Urban, Amyx & Lorenzon, 2009, pp. 179-183). A. Lewicka - Strzałecka is of a similar opinion. In her view, confidence causes a reduction in the perceived risk of making a purchase, and an accompanying reduction in cognitive complexity of even the simplest of decisions on the market (Lewicka – Strzałecka, 2003, pp. 195-202). The research of D. J. Kim et al. shows that the bestowal of customer trust on an online store positively affects his intention to purchase and negatively affects the perceived risk of making a transaction (Kim, Ferrin, & Raghav Rao, 2008, pp. 544-561). At the same time, perceived risk reduces the intention to purchase. An increase in expected benefits for the customer increases the intention to purchase. As shown in many studies, gaining customer trust by highlighting a vendor's reputation can influence an increase in price (Bapna, Jank & Shmueli, 2008, pp. 641-648). Trust is also one of the conditions of customer loyalty in e-commerce.

It should be noted that in the past 10 years there has been a general decline in consumer confidence in companies. Studies conducted in February 2004 by the Reputation Institute and the research firm Harris Interactive showed a significant decline in business confidence, which has been deepening since the beginning of the century. At the end of 2003, only 21% of respondents trusted companies to proceed responsibly in the event of problems with products or services. Even in 2001, only 29% of respondents thought this way (Fombrun & Foss, 2004, pp. 32).

In the tenth edition of the Edelman Trust Barometer study, conducted in 2009, 62% of respondents from 20 countries declared that they trust businesses less than a year earlier. The research also shows that a particularly strong decline in confidence in companies had occurred in highly developed countries (Edelman Trust Barometer, 2009). In a survey conducted by "The McKinsey Quarterly" in March 2009 among senior managers of the world, 72% of respondents said that business confidence and faith in the ruling of the free market had significantly weakened (Bonini, Court & Marchi, 2009, p. 24) . The trend emerging from the presented results of the research is clear - the deficit of trust in companies is deepening. This will cause many negative effects, and will also affect the process of communicating specific values for the customer.

CONCLUSION

1. Methods to influence employees in the areas of values, trust, and sense of dignity, are increasingly being used in business. This allows companies to gain a competitive advantage by replacing costly control measures with the self-control of workers.
2. Lack of trust leads to the need for control and supervision of employees, resulting in increased costs of doing business. Organizations with a higher level of organizational trust are characterized by better economic results.
3. Trust is also connected to a reduction in the risk of doing business. In some areas, risk is included in the specificity of the activity and cannot be avoided. Wherever risk cannot be eliminated, trust becomes indispensable.
4. Trust significantly impacts the speed and ease of making commercial transactions. This undoubtedly affects the sale of products and services and thus affects the economic health of the company.

5. Trust does not only benefit enterprises. It is of very practical importance for customers, since end users seek trustworthy organizations with whom they can cooperate with without fear. For customers, trust in a company is a significant factor in minimizing risk.

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